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SUBJECT: OMV Abandons MOL Bid, Mulls Next Steps

REF: A) 07 VIENNA 2980 and Previous; B) 07 Budapest 1618

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¶1. (SBU) SUMMARY: Austria's flagship energy concern OMV is abandoning a takeover bid for Hungarian counterpart MOL but will retain a sizable stake for now. OMV posted record first-half earnings and a positive outlook. While the bid was unlikely to succeed -- given the opposition of MOL and concerns of EU regulators -- its failure leaves no clear course for OMV to steer in a world of giants. END SUMMARY.

MOL Takeover Bid: Ill-Fated from the Start

¶2. (U) Launched in 2007, OMV's bid to merge with MOL was intended to create a Central European energy champion (reftels) and garnered the support of Austria's body politic but also the flat opposition of MOL management and (apparently) Hungarian authorities (ref B). OMV leadership announced August 6 that it would abandon the takeover bid but retain its 20.2% stake in MOL for now; OMV is still suing MOL over the latter's defensive tactics.

¶3. (SBU) The bid sparked concerns from competition authorities, since OMV and MOL together would have a near monopoly on refining facilities in parts of central Europe. In March, EU antitrust regulators launched a probe into the hostile bid which said a takeover would affect key markets for refined oil products and natural gas in Central Europe; in July, a leaked EU report said a merger "would remove MOL as the most significant" constraint on OMV and "OMV as the most significant constraint on MOL." For instance, the merger would combine all three refineries with the technical capacity to deliver aviation fuel to Vienna International Airport. For that reason, any merger would have meant certain divestiture of key assets including some refineries and gas distribution facilities (a price OMV was unlikely to pay). The takeover bid also came at an awkward time for Europe's energy regulators, as high prices spark demands for more aggressive oversight.

¶4. (SBU) Perhaps more importantly, OMV's hostile approach was out of place in central Europe's de facto public-private energy partnership. In a lunch with the Ambassador August 6, OMV board member (and Raiffeisen International Bank CEO) Herbert Stepic (PLEASE PROTECT) opined that the bid failed because it is impossible to launch a major initiative in the energy sector against the will of a country's authorities. Stepic commented that governments around the world -- and not simply in Russia -- now expect to have strategic control (explicit or implicit) over energy resources; however well intentioned, OMV cannot impose itself against the opposition of MOL and the Hungarian political class.

Record OMV Earnings and Positive Outlook

¶5. (U) On the same day, OMV announced record first-half earnings of EUR 1.75 billion (up 63%), surpassing forecasts. CEO Wolfgang Ruttenstorfer predicted that OMV's full year earnings would be "robust" in part on the basis of strong revenues from Romanian Petrom (acquired by OMV in 2004). OMV's share price spiked in reaction to the earnings announcement and to the cancelled merger

bid (while MOL shares fell). Strong earnings and the share price bounce will mollify the near-term impact on CEO Ruttenstorfer, who was closely associated with the MOL takeover plan.

COMMENT: Back to the Drawing Board

¶6. (SBU) Though poorly executed, OMV's strategy to create a $45 billion oil and gas champion in central Europe was a coherent response to the Europe's challenges of energy consolidation and dependence. OMV insists it will continue its "growth strategy in central Europe" and Ruttenstorfer reiterated that market consolidation will remain the sector's major theme, fueled by the coffers of Russian giants Rosneft and Gazprom. The sizable OMV stake in MOL may still give it some sway over MOL's future and will play a role as the two companies compete to take over Croatian INA. The failed bid leaves unanswered the question of how midsize European groups like OMV and MOL will cope in an industry where integrated giants and state-dominated firms control the lion's share of energy resources. OMV and MOL may find themselves back in discussions in the not distant future as both try to answer the challenge of energy dependence on Russia and other foreign suppliers.

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